

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**AGENDA I.D. 12515
RESOLUTION E-4621
November 14, 2013**

**REDACTED
RESOLUTION**

Resolution E-4621. San Diego Gas & Electric Company (SDG&E) requests approval of a sales agreement with the City of Corona to resell renewable generation and the associated renewable energy credits.

PROPOSED OUTCOME: This Resolution approves SDG&E's sales agreement with City of Corona without modification.

SAFETY CONSIDERATIONS: The agreement approved by this resolution will not alter existing agreements or any facility operations. Because this agreement does not require a change in facility operations there are no incremental safety implications associated with approval of this agreement beyond the status quo.

ESTIMATED COST: Costs of the agreement are confidential at this time.

By Advice Letter 2505-E filed on August 19, 2013.

SUMMARY

San Diego Gas & Electric Company's proposed sales agreement with the City of Corona complies with the Renewables Portfolio Standard (RPS) program guidelines and is approved.

San Diego Gas & Electric Company (SDG&E) filed Advice Letter (AL) 2505-E on August 19, 2013, requesting Commission review and approval of a sales agreement executed with the City of Corona (Corona). The proposed agreement is a short-term, bilateral agreement for the resale of renewable generation and associated renewable energy credits (RECs) ("bundled" product) from various operating, RPS-certified facilities that are under contract to SDG&E.

This resolution approves the sales agreement without modification. SDG&E's execution of this agreement is consistent with SDG&E's 2012 RPS Procurement Plan, including its resource need, which the Commission approved in Decision 12-11-016. Sales from SDG&E to Corona pursuant to the agreement are reasonably priced. Payments received by SDG&E under the sales contracts shall be credited to SDG&E's ratepayers via SDG&E's Energy Resource Recovery Account (ERRA).

The following table summarizes the agreement:

Table 1: Summary of the Corona Agreement

Buyer	Technology Type	Term	Minimum Energy (GWh)	Contract Start Date	Location
City of Corona	Various, existing RPS-eligible technologies	13 months	104	Later of CPUC approval or December 21, 2013	California

BACKGROUND

Overview of the Renewables Portfolio Standard (RPS) Program

The California RPS program was established by Senate Bill (SB) 1078, and has been subsequently modified by SB 107, SB 1036, and SB 2 (1X).¹ The RPS program is codified in Public Utilities Code Sections 399.11-399.31.² Under SB 2 (1X), the RPS program administered by the Commission requires each retail seller to procure eligible renewable energy resources so that the amount of electricity generated from eligible renewable resources be an amount that equals an average of 20 percent of the total electricity sold to retail customers in

¹ SB 1078 (Sher, Chapter 516, Statutes of 2002); SB 107 (Simitian, Chapter 464, Statutes of 2006); SB 1036 (Perata, Chapter 685, Statutes of 2007); SB 2 (1X) (Simitian, Chapter 1, Statutes of 2011, First Extraordinary Session).

² All further references to sections refer to Public Utilities Code unless otherwise specified.

California for compliance period 2011-2013; 25 percent of retail sales by December 31, 2016; and 33 percent of retail sales by December 31, 2020.³

Additional background information about the Commission's RPS Program, including links to relevant laws and Commission decisions, is available at <http://www.cpuc.ca.gov/PUC/energy/Renewables/overview.htm> and <http://www.cpuc.ca.gov/PUC/energy/Renewables/decisions.htm>.

NOTICE

Notice of AL 2505-E was made by publication in the Commission's Daily Calendar. SDG&E states that copies of the Advice Letter were mailed and distributed in accordance with Section 3.14 of General Order 96-B.

PROTESTS

No protests were filed.

DISCUSSION

San Diego Gas & Electric Company (SDG&E) requests approval of a sales agreement with the City of Corona.

On August 19, 2013, SDG&E filed AL 2505-E requesting approval of a bilaterally negotiated short-term sales agreement with the City of Corona (Corona). In AL 2505-E, SDG&E asserts that the executed sales agreement lowers costs to ratepayers while optimizing the value of its RPS portfolio.

Pursuant to the sales agreement, SDG&E will sell 104 gigawatt-hours (GWh) of RPS-eligible energy and associated RECs from facilities that are under CPUC-approved contracts to provide RPS-eligible generation and associated RECs to SDG&E. The facilities from which SDG&E may re-sell RPS-eligible energy and associated RECs to Corona are listed in Table 2 (below). All facilities are located

³ D.11-12-020 established a methodology to calculate procurement requirement quantities for the three different compliance periods covered in SB 2 (1X) (2011-2013, 2014-2016, and 2017-2020).

in California and interconnected into the California Independent System Operator (CAISO) balancing authority.

Table 2: List of Facilities under contract to SDG&E that may provide RPS-eligible energy and associated RECs to Corona

Name of Facility	Resource	Location	CEC RPS ID	Host Balancing Authority
AES Delano Inc	Biomass	Delano, CA	60431A	CAISO
Blue Lake Power, LLC	Biomass	Blue Lake, CA	60690A	CAISO
Borrego PV Solar I	Solar PV	Borrego Springs, CA	61211C	CAISO
Calpine Geysers	Geothermal	Sonoma & Lake County, CA	60002A	CAISO
			60003A	CAISO
			60004A	CAISO
			60005A	CAISO
			60006A	CAISO
			60007A	CAISO
			60008A	CAISO
			60009A	CAISO
			60012D	CAISO
			60013D	CAISO
			60014C	CAISO
			60015C	CAISO
			60016C	CAISO
Catalina Solar	Solar PV	Kern County, CA	61590C	CAISO
Coram Energy, LLC	Wind	Tehachapi, CA	60376E	CAISO
Manzana Wind	Wind	Tehachapi, CA	61671C	CAISO
Mesa Wind Farm	Wind	Riverside County, CA	60370A	CAISO
MM Prima Deshecha Energy, LLC	Biogas	San Juan Capistrano, CA	60552A	CAISO
Mountain View III	Wind	Riverside County, CA	60430A	CAISO
Pacific Wind, LLC	Wind	Tehachapi, CA	61555C	CAISO
Phoenix West	Wind	Riverside County, CA	60445A	CAISO

SDG&E requests the Commission to issue a resolution that finds⁴:

1. The proposed sales agreement with Corona is consistent with SDG&E's CPUC-approved RPS Procurement Plan and the sale of the bundled renewable electricity and green attributes under the proposed agreement with Corona is reasonable and in the public interest.
2. SDG&E's entry into the proposed agreement with Corona and the terms of such agreement is reasonable; therefore, the proposed agreement is approved in its entirety and all costs of the proposed agreement are fully recoverable in rates over the life of the proposed agreement, subject to Commission review of SDG&E's administration of the proposed agreement.
3. The total expected revenue of the proposed agreement is reasonable based on the estimated costs to SDG&E ratepayers and the proposed agreement's price relative to market data.
4. Payments received by SDG&E pursuant to the proposed agreement shall be credited to SDG&E ratepayers through SDG&E's Energy Resource Recovery Account over the life of the proposed agreement, subject to Commission review of SDG&E's administration of the proposed agreement.
5. Any other and further relief as the Commission finds just and reasonable.

Energy Division Review Of The Proposed Agreement

Energy Division evaluated the proposed agreement using the following criteria:

- Consistency with bilateral contracting guidelines
- Consistency with SDG&E's 2012 RPS Procurement Plan (Plan)
- Consistency with RPS standard terms and conditions (STC)
- Independent Evaluator review
- Procurement Review Group (PRG) participation
- Price and Cost reasonableness
- Contract viability

⁴ AL 2505-E, p. 13

- Public Safety

Consistency With Bilateral Contracting Guidelines

SDG&E adhered to the bilateral contracting rules because the Corona agreement is longer than one month in duration; the agreement was filed by advice letter; was reviewed by SDG&E's Procurement Review Group; negotiations were overseen by an independent evaluator; and the Corona agreement is reasonably priced, as discussed in more detail below.

The Corona agreement is consistent with the bilateral contracting guidelines established in D.06-10-019 and D.09-06-050.

Consistency with SDG&E's 2012 RPS Procurement Plan

Pursuant to statute, SDG&E's RPS Procurement Plan (Plan) includes an assessment of supply and demand to determine the optimal mix of renewable generation resources; description of potential RPS compliance delays; status update of projects within its RPS portfolio; an assessment of the project failure and delay risk within its RPS portfolio; and a bid solicitation protocol setting forth the need for renewable generation of various operational characteristics.⁵ California's RPS statute also requires that the Commission review the results of a renewable energy resource solicitation submitted for approval by a utility.⁶ The Commission reviews the results to verify that the utility conducted its solicitation according to its Commission-approved procurement plan.⁷

In SDG&E's 2012 RPS Plan, SDG&E expressed a commitment to meet its RPS requirements in a cost-effective manner. SDG&E's 2012 RPS Plan called for SDG&E to issue competitive solicitations for the purchase and sale of RPS-eligible energy and/or RECs and that bilateral offers would be considered if they were competitive when compared against recent solicitation offers and provide benefits to SDG&E customers. In addition, SDG&E stated that it would consider

⁵ Pub. Util. Code § 399.13(a)(5).

⁶ Pub. Util. Code § 399.13(d).

⁷ SDG&E's 2012 RPS Procurement Plan was approved by D.12-11-016 on November 8, 2012.

short-term contracts when it is short in the most immediate Compliance Period, but long in the subsequent Compliance Period. Procurement strategies that maximize the product category limitations in order to optimize ratepayer value across compliance periods would also be considered. Lastly, SDG&E's Plan discussed utility plans to pursue renewable energy generation development partnerships and utility-owned resources.

The Corona agreement is for the sale of renewable generation and associated RECs that fit SDG&E's renewable resource needs as identified in its 2012 RPS Plan. Thus, the Corona agreement is consistent with SDG&E's 2012 RPS Procurement Plan, as approved by D.12-11-016.

SDG&E's RPS Procurement Portfolio Need

Energy Division forecasts SDG&E to have excess renewable generation in Compliance Period 2011-2013 and Compliance Period 2014-2016.⁸ This Energy Division forecast takes into account a certain amount of contract failure within SDG&E's RPS procurement portfolio. Figure 1 below depicts Energy Division's forecast of SDG&E's RPS net long/short position for each compliance period under a risk-adjusted scenario.⁹ This graphical illustration shows that prior to the proposed contract SDG&E is forecasted to have excess RPS procurement in the Compliance Period 2011-2013 and Compliance Period 2014-2016.¹⁰

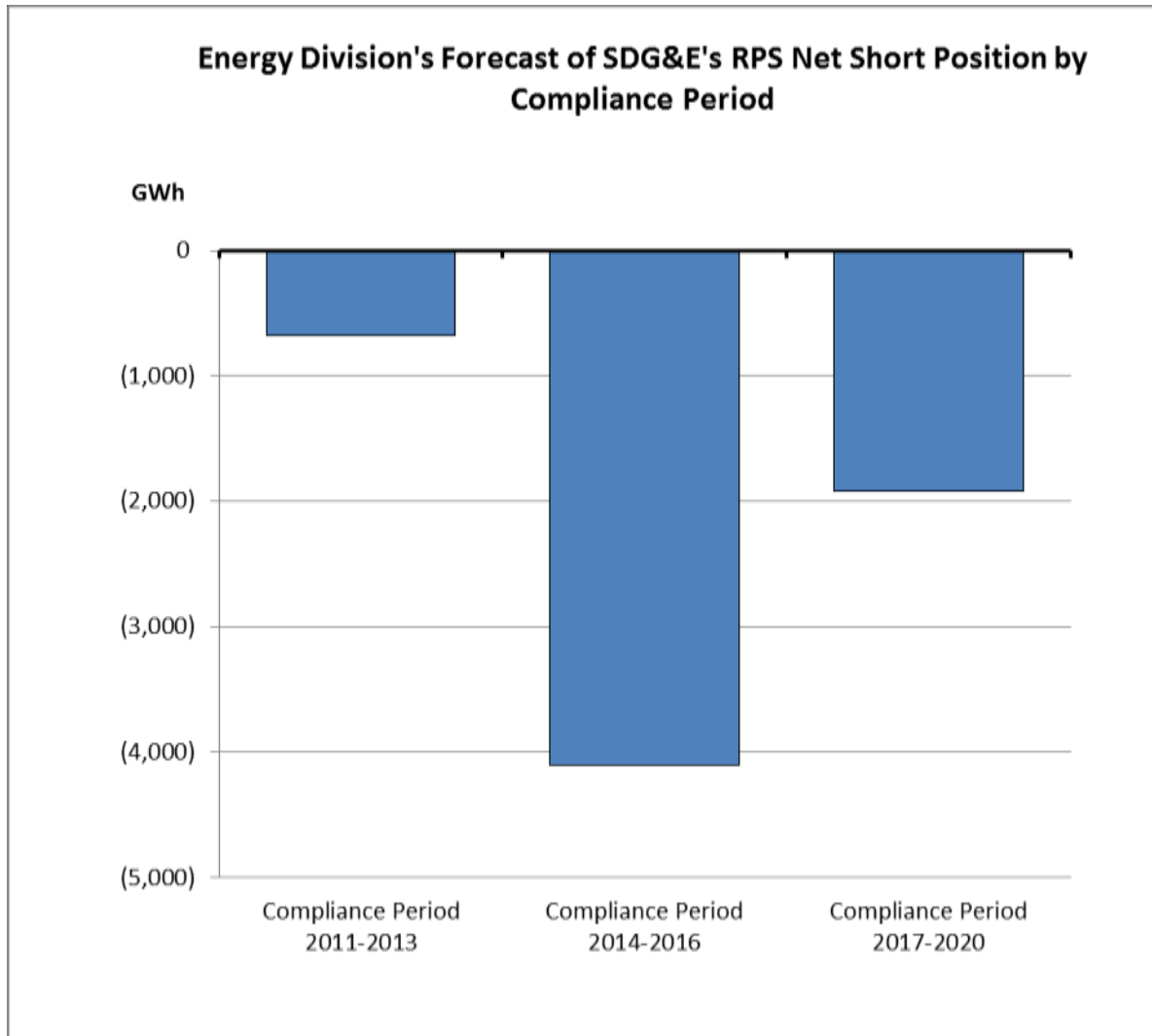
⁸ In addition to increasing California's RPS requirement to 33 percent from 20 percent, SB 2 (1X) (Simitian, Chapter 1, Statutes of 2011, First Extraordinary Session) establishes three different compliance periods. In D.11-12-020 the Commission defined the compliance periods (2011-2013; 2014-2016; and 2017-2020) and the methodology for calculating the RPS procurement quantity requirements for each compliance period.

⁹ Energy Division staff's forecast of SDG&E's RPS Procurement Portfolio is based on SDG&E's 2012 Preliminary Annual 33% RPS Compliance Report and the Commission's RPS Project Status Table. The Energy Division's forecast does not include any contracts pending Commission approval, executed - but not filed, nor contracts under negotiation.

¹⁰ Energy Division staff made several assumptions in developing its forecast: 1) operational projects will generate 100% of contracted generation; 2) projects under development will have a 75 percent rate of meeting the terms and conditions of the PPAs; 3) no carrying over of forecasted excess generation from one compliance period to another because SDG&E may or may not choose to apply all excess procurement towards subsequent requirements; and 4) prior deficits will need to be satisfied.

The sales agreement with Corona would decrease the amount of forecasted excess generation, but not to an amount below SDG&E's forecasted RPS compliance need for the Compliance Period 2011-2013 or Compliance Period 2014-2016.

Figure 1: Energy Division forecasts that SDG&E may have excess RPS procurement through 2020



Consistency with RPS Standard Terms and Conditions

The Commission adopted a set of standard terms and conditions (STCs) required in RPS contracts, four of which are considered “non-modifiable.” The STCs were compiled in D.08-04-009 and subsequently amended in D.08-08-028. The Commission further refined these STCs in D.10-03-021, as modified by D.11-01-025.

The Corona sales agreement is based on the Western Systems Power Pool (WSPP) agreement. The Corona agreement includes the Commission adopted RPS “non-modifiable” standard terms and conditions, as set forth in D.08-04-009, D.08-08-028, and D.10-03-021, as modified by D.11-01-025.

Portfolio Content Categories and Resale

In D.11-12-052, the Commission defined and implemented portfolio content categories for the RPS program. D.11-12-052 also adopted a set of conditions for allowing the resale of a part of or all of a contract for RPS procurement.

In AL 2505-E, SDG&E claims that it is procuring Portfolio Content Category 1 product and reselling the product to Corona as Portfolio Content Category 1 product pursuant to the Corona sales agreement. To support its claim, SDG&E states that the product being sold will be from RPS-certified facilities that have their first point of interconnection with the California Independent System Operator balancing authority.

In this resolution, however, the Commission makes no determination regarding the proposed agreement’s portfolio content category classification or if resale conditions are met because RPS contract evaluation process is a separate process from the RPS compliance determination and portfolio content category classification which requires consideration of several factors based on various showings in a compliance filing.¹¹ Thus, making a portfolio content classification determination in this resolution regarding the procurement considered herein is not appropriate.

¹¹ D.11-12-052, pp. 8, 12.

Independent Evaluator Review

SDG&E retained independent evaluator (IE) Jonathan Jacobs of PA Consulting Group to oversee SDG&E's bilateral negotiations with Corona and to evaluate the overall merits of the agreement. AL 2505-E included public and confidential independent evaluator's reports for the Corona sales agreement.

In the Corona IE report, the IE states that he believes that the Corona sales agreement merits Commission approval. Specifically, the IE notes that the contract is "well priced" and "economically beneficial to SDG&E's ratepayers" Additionally, the IE notes that based on his probability analysis of SDG&E meeting its RPS requirements that the Corona agreement "almost surely poses no risk to SDG&E's achievement of its CP1 [Compliance Period 2011-2013] and CP2 [Compliance Period 2014-2016] RPS requirement."

Consistent with D.06-05-039 and D.09-06-050, an independent evaluator oversaw SDG&E's negotiations with Corona.

Procurement Review Group Participation

The Procurement Review Group (PRG) was initially established in D.02-08-071 as an advisory group to review and assess the details of the IOUs' overall procurement strategy, solicitations, specific proposed procurement contracts and other procurement processes prior to submitting filings to the Commission.¹² SDG&E asserts that the Corona sales agreement was discussed with the PRG on August 6, 2013. Thus, pursuant to D.02-08-071, SDG&E's Procurement Review Group participated in the review of the Corona agreement.

Cost Reasonableness

In AL 2505-E, SDG&E stated that the sales agreement is intended to "optimize" SDG&E's RPS portfolio. SDG&E analyzed the cash flows related to the costs and revenues of the Corona sales agreement. Specifically, SDG&E considered: revenue realized from the sale of renewable power; the replacement cost of null

¹² SDG&E's PRG includes representatives of the Union of Concerned Scientists, the Coalition of California Utility Employees, The Utility Reform Network, the California Public Utility Commission's Energy Division and Division of Ratepayer Advocates, and the California Department of Water Resources.

power at the time of delivery coincident with the sale; the replacement cost of any banked RECs that had been carried forward as a result of procurement in excess of the annual RPS targets; and the year in which SDG&E's RPS procurement position (after banking) is less than the RPS procurement target. Additionally, SDG&E compared the prices of the sales agreement to its previously executed sales agreements and recent short-term RPS purchase agreements.

For the review of the sales agreement's price reasonableness, the Commission compared the sales agreement's price to the sales agreements' prices of SDG&E's recently executed sales agreements and market data. Based on this analysis and the confidential analysis provided by SDG&E in AL 2505-E, we determine that the sales agreement's price is reasonable. We note, however, that the Commission has not established rules for price reasonableness review of contracts for RPS sales by IOUs and that the analysis of the sales agreement's price reasonableness here is not precedent setting. Confidential Appendix A includes a detailed discussion of the contractual pricing terms and the analysis of the reasonableness of the contract's price.

The total expected revenues of the sales agreement are reasonable based on the estimated costs to SDG&E ratepayers and the sales agreement's price relative to recently executed SDG&E contracts and market data.

Payments received by SDG&E under the sales agreement shall be credited to SDG&E's ratepayers through SDG&E's Energy Resource Recovery Account (ERRA) over the life of the sales agreement, subject to Commission review of SDG&E's administration of the sales agreement.

SDG&E is required to demonstrate in its ERRA Review Proceedings that its least-cost dispatch processes, operations and related spot market transactions comply with all applicable Standards of Conduct (SOC) (including SOC No. 4 concerning cost dispatch obligations). SDG&E shall record the transaction authorized in this Resolution in its ERRA Balancing Accounts, and this transaction shall be subject to the Commission's ERRA Review Proceeding.

Contract Viability

The generation to be delivered pursuant to the Corona agreement is from a large portfolio of facilities, all of which have already been certified by the CEC as RPS-

eligible and are generating RPS-eligible energy; thus, it is reasonable that SDG&E will be able to meet the terms and conditions of the sales agreement.

Public Safety

California Public Utilities Code Section 451 requires that every public utility maintain adequate, efficient, just, and reasonable service, instrumentalities, equipment and facilities to ensure the safety, health, and comfort of the public. The Corona agreement is for the sale of renewable generation and associated RECs from RPS-eligible facilities. The proposed sales agreement does not alter existing power purchase agreements or any facility operations. As this agreement does not require a change in facility operations, there are no incremental safety implications associated with approval of this contract beyond the status quo. Based on the information before us, this agreement does not appear to result in any adverse safety impacts on the facilities or operations of SDG&E.

RPS ELIGIBILITY AND CPUC APPROVAL

Pursuant to Pub. Util. Code § 399.25, the CEC certifies eligible renewable energy resources. Generation from a resource that is not CEC-certified cannot be used to meet RPS requirements. To ensure that only CEC-certified energy is procured under a Commission-approved RPS contract, the Commission has required standard and non-modifiable “eligibility” language in all RPS contracts. That language requires a seller to warrant that the project qualifies and is certified by the CEC as an “Eligible Renewable Energy Resource,” that the project’s output delivered to the buyer qualifies under the requirements of the California RPS, and that the seller uses commercially reasonable efforts to maintain eligibility should there be a change in law affecting eligibility.¹³

The Commission requires a standard and non-modifiable clause in all RPS contracts that requires “CPUC Approval” of a PPA to include an explicit finding that “any procurement pursuant to this Agreement is procurement from an eligible renewable energy resource for purposes of determining Buyer's compliance with any obligation that it may have to procure eligible renewable

¹³ See, e.g. D.08-04-009 at Appendix A, STC 6, Eligibility.

energy resources pursuant to the California Renewables Portfolio Standard (*Public Utilities Code Section 399.11 et seq.*), Decision 03-06-071, or other applicable law.”¹⁴

Notwithstanding this language, the Commission has no jurisdiction to determine whether a project is an eligible renewable energy resource, nor can the Commission determine prior to final CEC certification of a project, that “any procurement” pursuant to a specific contract will be “procurement from an eligible renewable energy resource.”

Therefore, while we include the required finding here, this finding has never been intended, and shall not be read now, to allow the generation from a non-RPS-eligible resource to count towards an RPS compliance obligation. Nor shall such finding absolve the seller of its obligation to obtain CEC certification, or the utility of its obligation to pursue remedies for breach of contract. Such contract enforcement activities shall be reviewed pursuant to the Commission’s authority to review the administration of such contracts.

CONFIDENTIAL INFORMATION

The Commission, in implementing Pub. Util. Code § 454.5(g), has determined in D.06-06-066, as modified by D.07-05-032, that certain material submitted to the Commission as confidential should be kept confidential to ensure that market sensitive data does not influence the behavior of bidders in future RPS solicitations. D.06-06-066 adopted a time limit on the confidentiality of specific terms in RPS contracts. Such information, such as price, is confidential for three years from the date the contract states that energy deliveries begin or one year after expiration, whichever comes first, except contracts between IOUs and their affiliates, which are public. In this case, the contract will be public one year after the contract expires.

The confidential appendices, marked "[REDACTED]" in the public copy of this resolution, as well as the confidential portions of the advice letter, should remain confidential at this time.

¹⁴ See, e.g. D.08-04-009 at Appendix A, STC 1, CPUC Approval.

COMMENTS ON THIS RESOLUTION

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS AND CONCLUSIONS

1. The City of Corona (Corona) agreement is consistent with the bilateral contracting guidelines established in D.06-10-019 and D.09-06-050.
2. The Corona agreement is consistent with SDG&E's 2012 RPS Procurement Plan, approved by D.12-11-016.
3. The Corona agreement includes the Commission-adopted "non-modifiable" standard terms and conditions, as set forth in D.08-04-009, D.08-08-028, and D.10-03-021, as modified by D.11-01-025.
4. The Commission makes no determination regarding the proposed Corona agreement's portfolio content category classification because the RPS contract evaluation process is a separate process from the RPS compliance determination and portfolio content category classification.
5. Consistent with D.06-05-039 an independent evaluator oversaw SDG&E's negotiations with Corona.
6. SDG&E's Procurement Review Group participated in the review of the Corona sales agreement consistent with D.02-08-071.
7. The analysis of the sales agreement's price reasonableness is not precedent setting.
8. The total expected revenues of the Corona agreement are reasonable based on the estimated costs to SDG&E ratepayers and the sales contract's price relative to SDG&E's recently executed sales contracts and market data.
9. Payments received by SDG&E pursuant to the Corona sales agreement shall be credited to SDG&E ratepayers through SDG&E's Energy Resource Recovery Account (ERRA) over the life of the sales agreement, subject to Commission review of SDG&E's administration of the Corona sales agreement.
10. SDG&E is required to demonstrate in its ERRA Review Proceedings that its least-cost dispatch processes, operations and related spot market transactions comply with all applicable Standards of Conduct (SOC) (including SOC No. 4

concerning cost dispatch operations). SDG&E shall record the transaction authorized in this Resolution in its ERRA Balancing Accounts, and this transaction shall be subject to the Commission's ERRA Review Proceeding.

11. It is reasonable that SDG&E will be able to meet the terms and conditions of the Corona agreement.
12. The confidential appendices, marked "[REDACTED]" in the public copy of this resolution, as well as the confidential portions of the advice letter, should remain confidential at this time.
13. AL 2505-E should be approved effective today.

THEREFORE IT IS ORDERED THAT:

1. San Diego Gas & Electric Company's Advice Letter 2505-E, requesting Commission review and approval of a sales agreement with the City of Corona, is approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 14, 2013; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

Confidential Appendix A

Evaluation Summary of the Corona Agreement

[Redacted]